

CITY OF PRINCETON
Princeton, Kansas

REGULATORY BASIS FINANCIAL STATEMENTS
For the year ended December 31, 2018

And

INDEPENDENT AUDITOR'S REPORTS

CITY OF PRINCETON, KANSAS

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Karlin & Long, LLC
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

The Honorable Mayor and City Council
P.O. Box 58
Princeton, Kansas 66078

We have audited the accompanying water and sewer fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances of the City of Princeton, Kansas as of and for the year ended December 31, 2018, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the *Kansas Municipal Audit and Accounting Guide* as described in Note 1 to meet the financial reporting requirements of the State of Kansas; this includes determining that the regulatory basis of accounting is an acceptable basis for preparation of the financial statement in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statement that is free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the *Kansas Municipal Audit and Accounting Guide*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statement, the financial statement is prepared by the City of Princeton to meet the requirements of the State of Kansas on the basis of the financial reporting provisions of the *Kansas Municipal Audit and Accounting Guide*, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the “Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles” paragraph, the financial statement referred to above does not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the City of Princeton as of December 31, 2018, or changes in financial position and cash flows thereof for the year then ended.

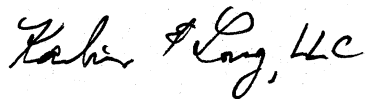
Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the water sewer funds aggregate cash and unencumbered cash balance of the City of Princeton as of December 31, 2018, and the aggregate receipts and expenditures for the year then ended in accordance with the financial reporting provisions of the *Kansas Municipal Audit and Accounting Guide* described in Note 1.

Report on Supplementary Information

Our audit was conducted for the purpose of forming opinion on the water and sewer fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances (basic financial statement) as a whole. The summary of regulatory basis expenditures-actual and budget and individual fund schedules of regulatory basis receipts and expenditures-actual and budget (Schedules 1, 2, and 3 as listed in the table of contents) are presented for purposes of additional analysis and are not a required part of the basic financial statement, however are required to be presented under the provisions of the *Kansas Municipal Audit and Accounting Guide*. Such information is the responsibility of management and was derived from and relates directly to the underlying

accounting and other records used to prepare the basic financial statement. The information has been subjected to the auditing procedures applied in the audit of the basic financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statement or to the basic financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statement as a whole, on the basis of accounting described in Note 1.

A handwritten signature in cursive script that reads "Karlin & Long, LLC".

Karlin & Long, LLC
Certified Public Accountants

Lenexa, KS
December 27, 2019

CITY OF PRINCETON, KANSAS
 Summary Statement of Receipts, Expenditures, and Unencumbered Cash - Water and Sewer Funds
 Regulatory Basis
 For the Year Ended December 31, 2018

Funds	Beginning Unencumbered Cash Balance	Prior Year Cancelled Encumbrances	Cash Receipts	Expenditures	Ending Unencumbered Cash Balance	Add Outstanding Encumbrances and Accounts Payable	Ending Cash Balance
Governmental Type Funds:							
Proprietary Type Funds:							
Water fund	\$ 152,120	\$ -	\$ 83,039	\$ 88,305	\$ 146,854	\$ -	\$ 146,854
Sewer fund	102,369	-	25,008	32,945	94,432	-	94,432
Total Reporting Entity	<u>\$ 254,489</u>	<u>\$ -</u>	<u>\$ 108,047</u>	<u>\$ 121,250</u>	<u>\$ 241,286</u>	<u>\$ -</u>	<u>\$ 241,286</u>
Composition of Cash							
				Checking Accounts	\$ 190,680		
				Savings Accounts			
				Certificates of Deposit	50,606		
				Total Reporting Entity	<u>\$ 241,286</u>		

The notes to the financial statements are an integral part of this statement.

CITY OF PRINCETON, KANSAS

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – Summary of Significant Accounting Policies

Financial Reporting Entity

The City of Princeton, Kansas is a municipal corporation governed by an elected six member council. The regulatory statement presents the City of Princeton. There are no organizations which meet the criteria for being combined in the City's report.

Regulatory Basis Fund Types

General Fund – The chief operating fund. Used to account for all resources except those required to be accounted for in another fund.

Special Purpose Funds - Used to account for the proceeds of specific tax levies and other specific revenue sources (other than major capital projects and tax levies for long-term debt) that are intended for specified purposes.

Business Funds – funds financed in whole or in part by fees charged to users of the goods or services (i.e. water fund, sewer fund, etc.)

Regulatory Basis of Accounting and Departure from Accounting Principles Generally Accepted in the United States of America

The *Kansas Municipal Audit and Accounting Guide* (KMAAG) regulatory basis of accounting involves the recognition of cash, cash equivalents, marketable investments, and certain accounts payable and encumbrance obligations to arrive at a net unencumbered cash and investments balance on a regulatory basis for each fund, and the reporting of changes in unencumbered cash and investments of a fund resulting from the difference in regulatory basis revenues and regulatory basis expenditures for the fiscal year. All recognized assets and liabilities are measured and reported at cost, unless they have been permanently impaired and have no future cash value or represent no future obligation against cash. The KMAAG regulatory basis does not recognize capital assets, long-term debt. Accrued receivables and payables, or any other assets, liabilities or deferred inflows or outflows, other than those mentioned above.

The City has approved a resolution that is in compliance with K.S.A. 75-1120a(c), waiving the requirement for application of generally accepted accounting principles and allowing the City to use the regulatory basis of accounting.

CITY OF PRINCETON, KANSAS

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Reimbursed Expenses

Reimbursed expenses are defined as repayments of amounts remitted on behalf of another party. All reimbursed expenses shown in the financial statements meet the following criteria: 1) the related disbursement was made in the current year on behalf of the payee, 2) the item paid for was directly identifiable as having been used by or provided to the payee, and 3) the amount of the reimbursed expense was directly tied to the amount of the original cash disbursement.

Budgetary Information

Kansas Statutes require that an annual operating budget be legally adopted for the General Fund, Special Purpose Funds (unless specifically exempted by statute), Bond and Interest Funds, and Business Funds. Although directory rather than mandatory, the statutes provide for the following sequence and timetable in the adoption of the legal annual operating budget:

1. Preparation of the budget for the succeeding calendar year on or before August 1st.
2. Publication in local newspaper on or before August 5th of the proposed budget and notice of public hearing on the budget.
3. Public hearing on or before August 15th, but at least ten days after publication of notice of hearing.
4. Adoption of the final budget on or before August 25th.

The statutes allow for the governing body to increase the originally adopted budget for previously unbudgeted increases in revenues other than ad valorem property taxes. To do this, a notice of public hearing to amend the budget must be published in the local newspaper. At least ten days after publication, the hearing may be held and the governing body may amend the budget at that time. There were no such budget amendments for the 2018 year.

The statutes permit transferring budgeted amounts between line items within an individual fund. However, such statutes prohibit expenditures in excess of the total amount of the adopted budget of expenditures of individual funds. Budget comparison statements are presented for each fund showing actual receipts and expenditures compared to legally budgeted receipts and expenditures.

CITY OF PRINCETON, KANSAS
NOTES TO FINANCIAL STATEMENTS

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Budgetary Information (continued)

All legal annual operating budgets are prepared using the regulatory basis of accounting, in which revenues are recognized when cash is received and expenditures include disbursements, accounts payable and encumbrances, with disbursements being adjusted for prior year's accounts payable and encumbrances. Encumbrances are commitments by the municipality for future payments and are supported by a document evidencing the commitment, such as a purchase order or contract. All unused budgeted expenditure authority lapses at year end.

A legal operating budget is not required for capital projects funds, trust funds and the following special revenue funds:

- 1) Capital Improvement Fund,
- 2) Equipment Reserve Fund.

Spending in funds which are not subject to the legal annual operating budget requirement is controlled by federal regulations, other statutes, or by the use of internal spending limits established by the governing body.

NOTE 2 – Stewardship, Compliance and Accountability

Compliance with Kansas Statutes

We noted no violations of Kansas Statutes for the period under audit

NOTE 3 – Deposits and Investments

K.S.A. 9-1401 establishes the depositories which may be used by the government. The statute requires banks eligible to hold the government's funds have a main or branch bank in the county in which the government is located and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The government has no other policies that would further limit interest rate risk.

CITY OF PRINCETON, KANSAS

NOTES TO FINANCIAL STATEMENTS

NOTE 3 – Deposits and Investments (Continued)

K.S.A. 12-1675 limits the government's investments of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The government has no investment policy that would further limit its investment choices.

Concentration of Credit Risk

State statutes place no limit on the amount the government may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and K.S.A. 9-1405.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. State statutes require the government's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%. All deposits were legally secured at December 31, 2018.

At December 31, 2018, the government's carrying amount of deposits was \$407,808 and the bank balance was \$407,846. The bank balance was held by four banks resulting in a concentration of credit risk. Of the bank balance, \$383,827 was covered by federal depository insurance and \$ 24,019 was collateralized with securities held by the pledging financial institutions' agents in the government's name.

Custodial Credit Risk- Investments

For an investment, this is the risk that, in the event of the failure of the issuer or counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State statutes require investments to be adequately secured.

CITY OF PRINCETON, KANSAS

NOTES TO FINANCIAL STATEMENTS

NOTE 4 – Defined Benefit Pension Plan

Plan Description – The City of Princeton, Kansas participates in the Kansas Public Employees Retirement System (KPERS), a cost sharing multiple-employer defined benefit pension plan as provided by K.S.A 74-4901, et. seq. Kansas law establishes and amends benefit provisions. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. KPERS' financial statements are included in its Comprehensive Annual Report which can be found on the KPERS website at www.kpers.org or by writing to KPERS (611 S. Kansas; Topeka, KS 66603) or by calling 1-888-275-5737.

Contributions – K.S.A. 74-4919 and K.S.A. 74-4921 establishes the KPERS member-employee contribution rates depending on whether the employee is KPERS 1, KPERS2, or KPERS 3 member. KPERS 1 members are active and contributing members hired before July 1, 2009. KPERS 2 members were first employed in a covered position on or after July 1 2009, and KPERS 3 members were first employed in a covered position on or after January 1, 2015. Effective January 1, 2015, Kansas law established the KPERS member-employee contribution rate at 6% of covered salary for KPERS 1, KPERS 2, and KPERS 3 members. Member contributions are withheld by their employer and paid to KPERS according to provisions Section 414(h) of the Internal Revenue Code.

State law provides that the employer contribution rates for KPERS 1, KPERS 2, and KPERS 3 be determined based on results of each annual actuarial valuation. Kansas sets a limitation on annual increases in the employer contributions rates. The actuarially determined employer contribution rate (not including the 1% contribution rate for the Death and Disability Program) and the statutory contribution rate was 8.39% for the fiscal year ended December 31, 2018. Contributions to the pension plan from the City of Wathena, Kansas were \$-0- for the year ended December 31, 2018.

Net Pension Liability

At December 31, 2018, the City of Princeton, Kansas' proportionate share of the collective net pension liability reported by KPERS was \$-0- the net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined was an actuarial valuation as of December 31, 2017, which was rolled forward to June 30, 2018. The City of Princeton, Kansas' proportion of the net pension liability was based on the ratio of the City of Princeton, Kansas' contributions to KPERS, relative to the total employer and non-employer contributions to the Local subgroup within KPERS. Since KMAAG regulatory basis of accounting does

CITY OF PRINCETON, KANSAS
NOTES TO FINANCIAL STATEMENTS

NOTE 4 – Defined Benefit Pension Plan (continued)

not recognize long-term debt, this liability is not reported in these financial statements. The complete actual valuation report including all actuarial assumptions and methods, and the report on the allocation of the KPERS collective net pension liability to all participating employers are publicly available on the website www.KPERS.org or can be obtained as described above.

NOTE 5 – Other Long Term Obligations from Operations

Other Post Employment Benefits

As provided by K.S.A. 12-5040, the City allows retirees to participate in the group health insurance plan. While each retiree pays the full amount of the applicable premium, conceptually, the city is subsidizing the retirees because each participant is charged a level of premium regardless of age. However, the cost of this subsidy has not been quantified in these statements.

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the city makes health care available to eligible former employees and eligible dependents. Certain requirements are outlined by the federal government for this coverage. The premium is paid in full by the insured.

Compensated Absences

City employees are allowed to take vacation and sick leave. Vacation pay is not provided due to the employees being considered part time. Upon termination, employees are not compensated for any unused vacation leave. Sick leave is provided as needed. The employees are expected to complete the tasks at any time available. Amounts as compensated absences have not been recorded in the financial statements due to its immaterial nature.

NOTE 6 – Claims and Judgments

The City is exposed to various risks of loss related to limited torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employee; and natural disasters. The City has purchased commercial insurance for these potential risks. There have been no significant reductions in insurance coverage from 2017 to 2018 and there were no settlements that exceeded insurance coverage in the past three years.

CITY OF PRINCETON, KANSAS

NOTES TO FINANCIAL STATEMENTS

NOTE 6 – Claims and Judgments (continued)

During the ordinary course of its operations the City is a party to various claims, legal actions and complaints. It is the opinion of the City's management and legal counsel that these matters are not anticipated to have a material financial impact on the City.

NOTE 7 – Interfund Transactions

No operating transfers were from or to the Utility Funds during the year under audit.

NOTE 8 – Subsequent Events Review

Subsequent events for management's review have been evaluated through December 27, 2019. The date in the prior sentence is the date the financial statements were available to be issued.

NOTE 9 – Long Term Debt

The schedule of long term debt and current maturities for the next five years is detailed in the following schedule.

NOTES TO FINANCIAL STATEMENTS

Changes in long-term liabilities for the City for the year ended December 31, 2018 were as follows:

Current maturities of long-term debt and interest for the next five years and in five year increments through maturity are as follows:

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City of Princeton, Kansas

Regulatory-Required

Supplementary Information

For the year ended December 31, 2018

CITY OF PRINCETON, KANSAS
 Summary of Expenditures - Water and Sewer Funds - Actual and Budget
 Regulatory Basis
 (Budgeted Funds Only)
 For the Year Ended December 31, 2018

<u>Funds</u>	<u>Certified Budget</u>	<u>Adjustments to Comply with Legal Max</u>	<u>Adjustments for Qualifying Budget Credits</u>	<u>Total Budget for Comparison</u>	<u>Expenditures Chargeable to Current Year</u>	<u>Variance - Over (Under)</u>
Governmental Type Funds						
Proprietary Type Funds						
Water fund	\$ 163,491	\$ -	\$ -	\$ 163,491	\$ 88,305	\$ (75,186)
Sewer fund	117,953	-	-	117,953	32,945	(85,008)

CITY OF PRINCETON, KANSAS
BUSINESS FUND
WATER UTILITY FUND
Schedule of Receipts and Expenditures - Actual and Budget
Regulatory Basis
For the Year Ended December 31, 2018

	Actual	Budget	Variance- Over (Under)
CASH RECEIPTS			
Charges to customers	\$ 77,811	\$ 75,000	\$ 2,811
Meter deposits	375	100	275
Tap fees	1,000	-	1,000
Sales tax	-	800	(800)
Miscellaneous revenues	2,959	1,200	1,759
Interest income	894	25	869
Total Cash Receipts	83,039	77,125	5,914
EXPENDITURES			
Salaries	7,560	10,000	(2,440)
Supplies	996	2,600	(1,604)
Contractual	1,506	5,000	(3,494)
Utilities	1,986	2,500	(514)
Insurance	4,009	3,000	1,009
Audit/Legal fees	2,666	1,500	1,166
Sales tax	978	1,000	(22)
Water purchase	40,824		40,824
Kansas water fees	624	800	(176)
Equipment	-	500	(500)
Returned checks	-	400	(400)
Permits, dues, lab fees	1,955	1,000	955
Demand 50%	3,462	3,000	462
Gasoline	-	600	(600)
Training	20	200	(180)
Office supplies	623	1,500	(877)
Refund meter deposit	125	500	(375)
Loan payments	20,625	20,075	550
Capital outlay	-	108,991	(108,991)
Courier services	-	200	(200)
Publications	-	125	(125)
Miscellaneous	346	-	346
Adjustment for qualifying budget credits	-	-	-
Total Expenditures	88,305	\$ 163,491	\$ (75,186)
Receipts Over (Under) Expenditures	(5,266)		
Unencumbered Cash, Beginning	152,120		
Prior Year Cancelled Encumbrances	-		
Unencumbered Cash, Ending	\$ 146,854		

CITY OF PRINCETON, KANSAS
BUSINESS FUND
 SEWER UTILITY FUND
 Schedule of Receipts and Expenditures - Actual and Budget
 Regulatory Basis
 For the Year Ended December 31, 2018

	Actual	Budget	Variance- Over (Under)
CASH RECEIPTS			
Sewer charges	\$ 25,008	\$ 25,500	\$ (492)
Sewer deposits	-	-	-
Miscellaneous revenues	-	-	-
Operating transfers	-	-	-
Total Cash Receipts	25,008	25,500	(492)
EXPENDITURES			
Salaries	5,508	700	4,808
Supplies	50	1,800	(1,750)
Contractual	10,440	2,500	7,940
Utilities	-	600	(600)
Chemicals	-	3,000	(3,000)
Gasoline	-	500	(500)
Insurance	3,982	2,000	1,982
Audit/Legal fees	2,666	3,000	(334)
Permits, dues	185	150	35
Lab fees	1,241	1,500	(259)
Loan payment	8,788	9,788	(1,000)
Capital outlay	-	92,415	(92,415)
Miscellaneous	85	-	85
Adjustment for qualifying budget credits	-	-	-
Total Expenditures	32,945	\$ 117,953	\$ (85,008)
Receipts Over (Under) Expenditures	(7,937)		
Unencumbered Cash, Beginning	102,369		
Prior Year Cancelled Encumbrances	-		
Unencumbered Cash, Ending	\$ 94,432		